

# TENNESSEE REGULATORY AUTHORITY

■ TENNESSEE REGULATORY AUTHORITY



“Promoting the Public Interest”

■ ELECTRIC

■ GAS

■ TELECOMMUNICATIONS

■ WATER

■ ANNUAL REPORT FOR THE PERIOD JULY 1, 1999 TO JUNE 30, 2000

## TABLE OF CONTENTS

Letter to the Governor, Members of the Senate and Members of the House of Representatives.....	2
Introduction to the Authority .....	3
Organizational Chart of the Authority.....	6
Utilities Under the Authority's Jurisdiction.....	8
DIVISIONAL REPORTS	
Office of the Executive Secretary .....	9
Budget Summary.....	11
Revenue .....	12
Abstract of Minutes .....	13
Consumer Services Division .....	15
Economic Analysis & Policy Division.....	20
Energy & Water Division.....	21
Gas Pipeline Safety Division.....	25
Information Systems Division.....	32
Legal Division.....	33
Telecommunications Division.....	35

# INTRODUCTION TO THE TENNESSEE REGULATORY AUTHORITY

February 1, 2001

The Honorable Don Sundquist  
Governor, State of Tennessee

The Honorable John S. Wilder  
Lt. Governor

The Honorable Jimmy Naifeh  
Speaker of the House of Representatives

Members of the General Assembly

It is a pleasure to present you the Annual Report of the Tennessee Regulatory Authority for Fiscal Year 1999-00. This report has been prepared in accordance with Tennessee Code Annotated § 65-1-211.

Within this report you will find highlights of the activities in which the TRA has been engaged during this past fiscal year. You will be able to review a budget summary, a breakdown of the accomplishments of each division and an abstract of the minutes of all TRA Directors' Conferences for the fiscal year.

The TRA is successfully managing the increased caseload resulting from passage of both the Tennessee Telecommunications Act of 1995, (Public Chapter 408) and the United States Telecommunications Act of 1996, while continuing to provide consumer services and ensuring the safety of Tennessee's natural gas distribution system.

At the present time there are 60 certified competing local exchange carriers in Tennessee. These companies are serving 7% of the total lines available to competitors and 27% of the business lines available to competitors. Fostering competition in the telecommunications industry will continue to be the hallmark of the TRA.

As we enter the second half of the fiscal year, we look forward to the many challenges that will arise. We also look forward to another year of support and encouragement from you.

We have endeavored to make this report thorough, informative and easily understood. If you have any questions or would like additional information, please feel free to contact us.

Respectfully submitted,

Sara Kyle, Chairman  
Lynn Greer, Director  
Melvin Malone, Director

## INTRODUCTION TO THE TENNESSEE REGULATORY AUTHORITY



In 1995, the General Assembly passed legislation to create the Tennessee Regulatory Authority (Authority), a governing body to regulate utilities in the state of Tennessee. The Authority's mission is to promote the public interest by balancing the interests of utility consumers and providers while facilitating the transition to a more competitive environment.

Leadership for the Authority is comprised of three Directors, each of whom is appointed to serve a six-year term. Chairman Sara Kyle was appointed by Speaker Jimmy Naifeh; Director Lynn Greer was appointed by Governor Don Sundquist; and Director Melvin Malone was appointed by Lt. Governor John Wilder. Every two years the Directors themselves elect a chairperson.

## INTRODUCTION Cont.

### OUR MISSION

*The mission of the Tennessee Regulatory Authority is to promote the public interest by balancing the interests of utility consumers and providers while facilitating the transition to a more competitive environment.*

This mission is fulfilled through the functions of economic regulation, regulatory oversight, and service regulation and consumer assistance.

**Economic Regulation** — The Authority provides an accessible and efficient regulatory process that is fair and unbiased. And we ensure that the regulatory process results in fair and reasonable rates while offering rate-based regulated utilities an opportunity to earn a fair return on their investments.

**Regulatory Oversight** — The Authority provides appropriate and necessary regulatory oversight to protect consumers and facilitate the development of fair and effective competition in the provision of telecommunications services.

**Service Regulation and Consumer Assistance** — The Authority protects and educates the public in the changing environment of competition among utilities by becoming a consumer service focused agency. We also inform utility consumers regarding utility matters and expedite the resolution of disputes between consumers and utilities.

### OUR PHILOSOPHY

To function with the highest degree of ethics, serving before the public with accountability and openness. To carry out our regulatory duties with diligence, while operating in a competent, effective, and efficient manner. In serving the public, we will balance the interests of consumers, regulated entities, and others, while maintaining a standard of excellence. This is accomplished by remaining technically up-to-date, utilizing modern state-of-the-art communications tools, computer systems and equipment, which allows for the responsive and accurate processing of consumer information, regulatory data, industry audits, inspection results, and requests for service.

The Tennessee Regulatory Authority is available on the World Wide Web at [www.state.tn.us/tra](http://www.state.tn.us/tra). The web site contains a wide spectrum of information and services for consumers as well as for the utilities under our jurisdiction.

Visitors to our web site will find resources that encompass the scope of our duties related to the companies that we regulate and the consumer programs under our direction. A sample of what's available includes:

**Consumer Information** — Whether a person wishes to register for the Tennessee “Do Not Call” program, learn about the reasons for area code changes, file a consumer complaint, or learn about our telephone assistance programs, it can all be found under the “consumer information” listing on our homepage.

**Divisional Information** — Information about each division is located under the “TRA Divisions” section of the site. There you will find each division’s mission statement, along with a brief description of that division’s function within the Authority.

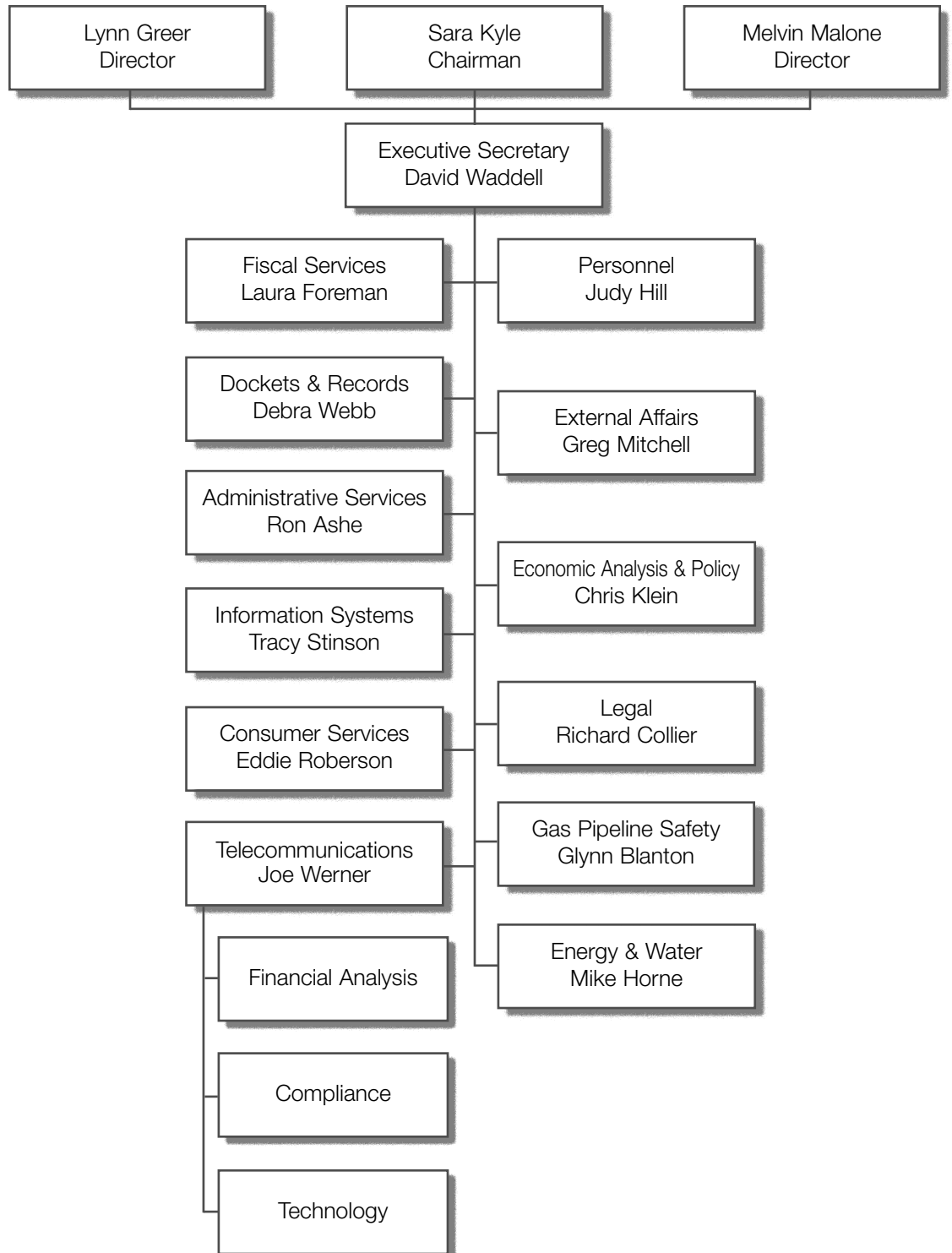
**Regulatory Cases** — Visitors can track the progression of a case online through the “Electronic Fileroom.” Updated daily, there are over 2,000 dockets cataloged for review. And to make searching for documents easier, a keyword search engine has been added to accelerate the search process.

**Conference Agendas** — To coincide with our bi-monthly Authority conferences, an online version of our conference agenda is posted weekly on our site. To access a copy, go to the “Electronic Fileroom” and locate “Final Conference Agenda.”

**TRA News** — Under “Press Releases” visitors will find information about recent Authority decisions.

**Miscellaneous** — Past and present TRA reports, TRA procedural Rules and Regulations, pertinent information related to gas pipeline news and utility applications and procedures, TRA Appeals and Petitions to the FCC, as well as TRA Orders can also be found online.

# TENNESSEE REGULATORY AUTHORITY



## INTRODUCTION Cont.

The Authority has jurisdiction over public utilities including:

electric companies,  
telephone companies,  
water companies, and  
natural gas companies

Pursuant to T.C.A. § 65-4-104, statutory responsibilities include making rules for utility operations, utility rates, and regulating gas safety standards. Quasi-judicial powers allow the Authority to decide the granting of operating authority and to adjudicate conflicts and controversies arising from utility operations.

Financially independent of the General Fund, the Authority's operational expenses are covered wholly by the industries it regulates, with a small portion coming from the federal government.

As of June 30, 2000, the Authority was budgeted for 90 positions. The Divisions are as follows:

Director's Offices (3)	9 staff members
Executive Secretary	11 staff members
Consumer Services	15 staff members
Energy & Water	5 staff members
Gas Pipeline Safety	7 staff members
Information Systems	4 staff members
Legal	9 staff members
Telecommunications	20 staff members
Economic Analysis & Policy	4 staff members
Universal Service Division	6 staff members
	<hr/>
	90 staff members

Staff of the Authority includes accountants, administrators, attorneys, consumer specialists, economists, engineers, information systems and computer specialists, a media specialist, and office support.



## UTILITIES UNDER THE AUTHORITY'S JURISDICTION

Listed below are the approximate number of utilities under the jurisdiction of the Tennessee Regulatory Authority as of June 30, 2000.

<b>Energy &amp; Water</b>	
Electric	3
Natural Gas Companies	6
Water & Sewerage	12
<b>Telecommunications</b>	
Competing Telephone Service Providers	60
Customer Owned-Coin Operated Telephone Providers	377
Incumbent Telephone Companies	18
Interexchange Carriers (IXCs)	4
Local Service Resellers	97
Resellers and Operator Service Providers	415
<b>Gas Pipeline Safety</b>	
Apartments*	17
Direct Sales*	23
Housing Authorities*	37
Intrastate Pipeline*	7
LNG Operators*	3
Mobile Home Parks*	5
Miscellaneous Master Meters*	1
Municipalities*	74
Utility Districts*	22
<b>Total Public Utilities</b>	<b>1181</b>

\* These entities are regulated by the Authority only to ensure compliance with Minimum Federal Safety Standards for the transmission of natural gas.



## EXECUTIVE SECRETARY'S OFFICE

K. David Waddell  
Executive Secretary

**MISSION:** *To coordinate the activities of the Authority and ensure that matters brought before it are handled in a fair and impartial manner, always moving toward improving services to the people served by the authority.*

The Executive Secretary, in accordance with T.C.A. § 65-1-209, serves as the chief administrative officer of the Authority with the power and duty to conduct ordinary and necessary business in the name of the Authority. The specific duties of the Executive Secretary include:

- ◆ Subject to review by the Directors, employ and provide general supervision for such personnel as may be required to effect the purpose of the Authority;
- ◆ Serve as custodian of the Authority's official records by keeping a full and accurate record of all the proceedings and transactions of the Authority;
- ◆ Prepare annual budget;
- ◆ Supervise the expenditure of funds and compliance with all applicable provisions of state and federal law in receipt and disbursement of funds;
- ◆ Recommend to the Directors such rules and policies as are necessary and appropriate to efficiently and economically provide for the internal management of the Authority;
- ◆ Administer, monitor and review the operating procedures of each division of the Authority;
- ◆ Ensure that each division of the Authority fully executes in an efficient manner the separate duties and responsibilities assigned to each;
- ◆ Coordinate and expedite matters pending before the Authority.
- ◆ Prepare and distribute Directors' Conference Agendas.
- ◆ Schedule hearings;

In order to carry out these responsibilities, the Executive Secretary's office is divided into four areas: Dockets and Records, Personnel Office, Public Information, Fiscal and Administrative.

The Dockets and Records Section, under the direction of Debra Webb, has the following responsibilities:

- ◆ Process all filings by regulated companies and other parties;
- ◆ Maintain lists of all pending dockets;
- ◆ Arrange transcription of hearings;
- ◆ Maintain permanent records of all hearings; and

## EXECUTIVE SECRETARY'S OFFICE

The Personnel Office, under the direction of Judy Hill, performs all functions relating to human resource management including:

- ◆ Maintain personnel records;
- ◆ Coordinate training for Authority staff;
- ◆ Implement affirmative action plans;
- ◆ Coordinate insurance and retirement matters; and
- ◆ Prepare payroll.
- ◆ Arrange transcription of hearings;

The Office of External Affairs, under the direction of Greg Mitchell, performs the following functions:

- ◆ Write press releases regarding actions taken by the Authority;
- ◆ Prepare Authority reporting materials for the General Assembly;
- ◆ Publish a quarterly newsletter;
- ◆ Promote Authority website development;
- ◆ Coordinates Speaking Engagements;
- ◆ Monitors and maintains legislative relations;
- ◆ Develops and maintains the Authority's public awareness efforts.

The Fiscal Office, under the direction of Laura Foreman, performs the following functions:

- ◆ Supervises accounts payable/receivable;
- ◆ Oversees the agency's procurement functions;
- ◆ Audit and control expenditures;
- ◆ Maintain all fiscal reports for security purposes.
- ◆ Collect and deposit receipts.

The Administrative Section, under the direction of Ron Ashe, performs the following functions.

- ◆ Oversees all printing, form production and printed material inventories.
- ◆ Maintains an inventory of all equipment and supplies.
- ◆ Supervises the maintenance of the building and grounds by coordinating with property management, housekeeping and security personnel.
- ◆ Supervises the records management program.

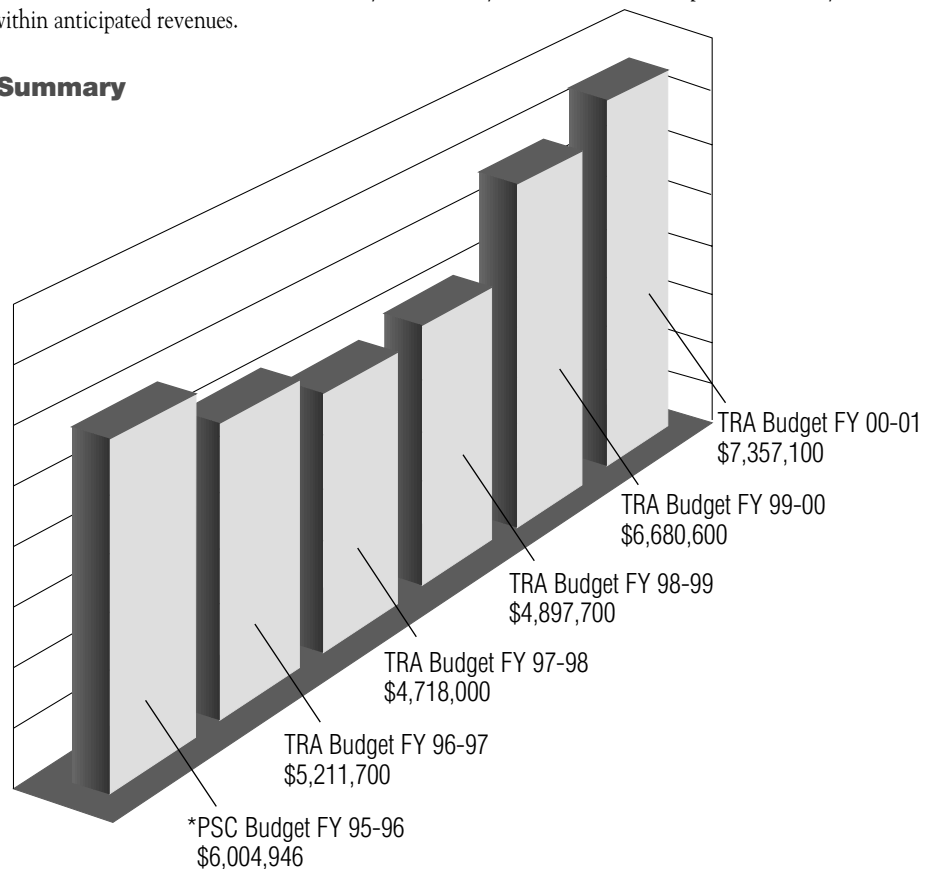
## BUDGET SUMMARY APPROPRIATIONS, FEES AND EXPENSES

The TRA began fiscal year 1999-2000 (FY00) with a budget of \$6,680,600 which was a 35.5% increase over the FY99 budget of \$4,897,700. Over half of the increase (\$1,347,300 or 27.5%) is due to three (3) new programs (the "Universal Service Fund" for the telecommunications industry, the "Telecommunications Devices Access Program" for the hearing impaired, and the "Do Not Call" Program to prevent unwanted telephone solicitation from telemarketers). Each of these programs were mandated by the Legislature and assigned to the TRA. The balance of the increase granted was to enable the Agency to manage the ever increasing number of companies competing in Tennessee telecommunications markets by providing the funding for six (6) new positions. While actual expenditures increased 14.9% from \$4,653,800 to \$5,345,746 for the same period, the revenues received for the period increased 23.5% from \$5,560,781 to \$6,869,872.

The majority of the revenues collected by the TRA are derived from utility inspection fees. These inspection fees are based on annual gross intrastate revenues and are paid by the public utilities to defray the cost of regulation by the TRA. Since the inception of the TRA on July 1, 1996, inspection fees have increased an average of 5.9% annually. During FY00 \$5,423,062 of the total revenue received was from inspection fees. In addition to the inspection fee revenue, the TRA received \$285,078 in federal revenue, \$89,000 in registration fees from telemarketers for the "Do Not Call" program, \$725,482 in contributions to the "Telecommunications Devices Access Program," \$627 in departmental revenues, and \$346,623 in fines and penalties. All of these funds are deposited in the Public Utilities Account.

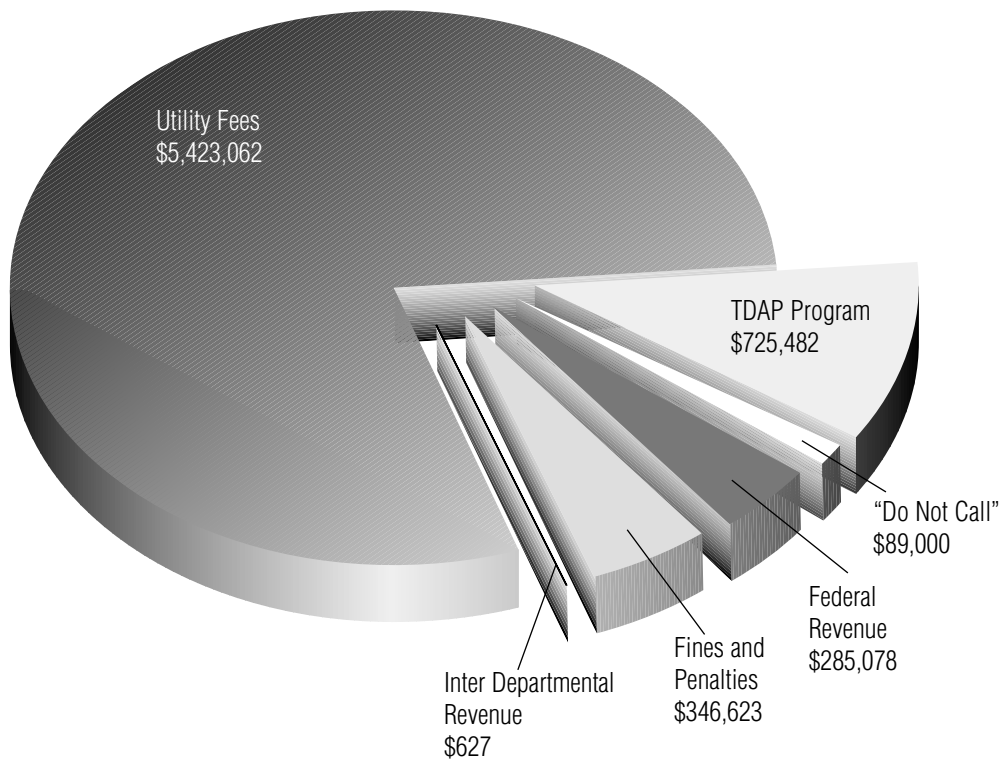
The budget for FY01 is \$7,357,100 of which 100% will be funded by revenues received from sources other than the General Fund of the State of Tennessee. Therefore, the Authority is financially sound and is able to operate efficiently and productively within anticipated revenues.

### Budget Summary



\*Budget for the same functions performed by the TRA

## REVENUE OF TRA FY 99



**Total Revenue**  
**\$6,869,872**

## ABSTRACT OF MINUTES

The Abstract of Minutes of the Authority submitted hereafter covers the period from July 1, 1999 to June 30, 2000.

The minutes of the Authority are kept on permanent file in the office of the Executive Secretary. These are available to the public for inspection at all times. In addition to paper files, the TRA maintains an electronic file room on its web page ([www.state.tn.us/tra](http://www.state.tn.us/tra)). All documents filed since 1-1-99 are available for viewing and printing. The Official Minutes show every action taken by the Authority. The Abstract of Minutes is recorded in permanent bound volumes and prepared in a manner permitting immediate reference to the actions of the Authority. The following data is submitted in connection with each item of business:

- ◆ Docket Number
- ◆ Name of Applicant/Petitioner
- ◆ Subject Matter of Application/Petitioner
- ◆ Date of Final Order
- ◆ Summary of Authority's Action



## ABSTRACT OF MINUTES (cont.)

An abstract or condensation of the Minutes is as follows:

### VOLUME OF PROCEEDINGS BEFORE THE AUTHORITY FOR FISCAL YEAR 2000

	FY 1998	FY 1999	FY2000
Total Number of Filings	702	1,454	1808
Tariffs Reviewed	444	438	588
Interconnection and Resale Agreements Filed	69	81	87
COCOT Registrations	62	48	41
COCOT Authorities Issued	62	48	41
Reseller Certificates Approved	91	134	87
Number of Conferences	25	26	26
Hearings	86	53	84
Hearing Days	100	55	76
Final Orders Issued	212	445	336
Orders on Appeal	6	6	7



## CONSUMER SERVICES DIVISION

Eddie Roberson  
Chief

**Mission:** *To ensure that consumers are aware of the changes in the utility arena and receive an adequate level of services from regulated companies by providing consumer outreach and monitoring the services they provide through conducting quality of service tests, initiating investigations, mediating consumer-utility disputes and enforcing the Authority's rules and regulations.*

The Consumer Services Division ("CSD") is responsible for monitoring the quality of services provided by regulated utilities and enforcing the rules and regulations of the Authority. The major aspect of this responsibility is to investigate and mediate consumer complaints against regulated utilities pursuant to T.C.A. §§ 65-4-119 and 65-4-401 et seq. The CSD also performs other functions such as: serving as the consumer education/outreach office for the Authority developing and implementing programs to educate the public on utility issues; implementing the Do Not Call Telemarketing statute entailing the registration of solicitation companies and maintaining the Do Not Call Register; and distributing telecommunications devices for the deaf and deaf-blind community in compliance with TCA § 65-21-115.

The CSD conducts service hearing, community meetings, utility service audits, offers testimony at utility proceedings and recommends enforcement action on utilities not complying with state law or the rules and regulations of the Authority. The CSD also monitors the operation of the Tennessee Relay Center for the hearing, speech and visually impaired.

The CSD staff consists of a chief, assistant chief, three program administrators, one legal assistant, four administrative secretaries, and four consumer specialists.

### Major Activities

- ◆ Investigated 2656 consumer complaints against utility companies.
- ◆ Assisted in securing refunds of \$625,320 to consumers as a result of investigations.
- ◆ Drafted new telecommunications service standard rules to address the changes occurring in the local telephone service arena.
- ◆ Investigated telecommunications companies for violation of TRA Rules and Regulations. These investigations led to settlements where the companies agreed to pay \$351,200 in fines and penalties to the State in addition to several thousands of dollars in refunds to consumers. These settlements centered around investigations regarding a carriers unauthorized switching of a consumer's local or long distance service (referred to as "slamming") and a carriers unauthorized placing of charges (cramming) on a consumer's telephone bill.



## CONSUMER SERVICES DIVISION

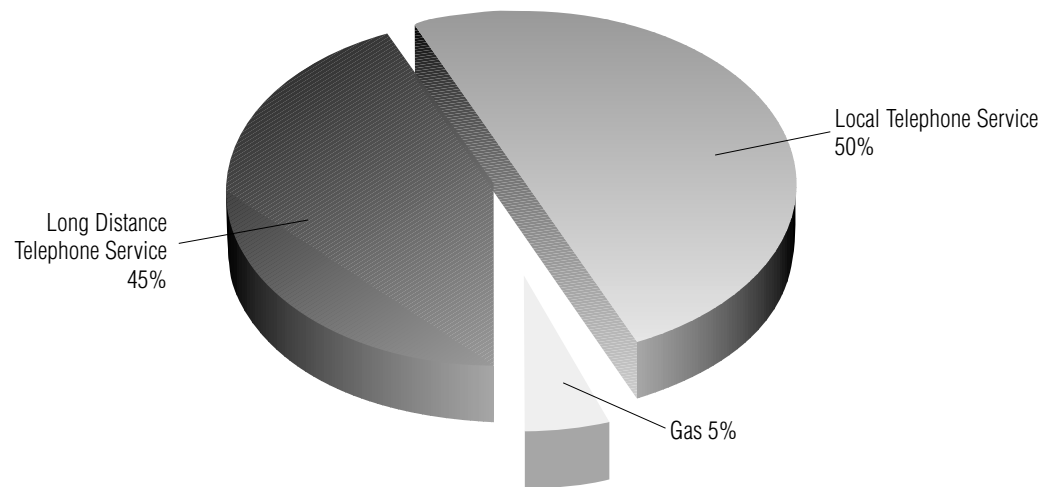
- ◆ Investigated 458 complaints against long distance telephone companies for switching a consumer's long distance service without authorization (sometimes referred to as "slamming"). A total of \$49,627 was refunded to consumers from long distance companies found in violation of the Authority's rules and regulations.
- ◆ In 1999, 4,993 recipients saved \$99,860 utilizing the Link-up Tennessee program. This represented a twenty-three (23) percent increase in the number of Tennesseans benefiting from this service.
- ◆ Administered the Lifeline Telephone Assistance Program. This program is designed to ensure that all Tennesseans have access to affordable telephone service. In 1999, 31,095 Lifeline recipients saved a total of \$4,235,139 on their telephone bills. The number of recipients that received Lifeline in 1999 represents a thirty-one (31) percent increase from annual year 1998.
- ◆ Reviewed the operations of the Tennessee Relay Center (TRC) to ensure the Center complies with the Authority's rules and regulations. The TRC is a service designed to assist the speech and hearing impaired with telephone calls. The TRC's total volume for the fiscal year was 860,160. That is an increase of 12,493 calls over last years total.
- ◆ Conducted 44 field inspections of public pay telephones. These tests are conducted to ensure compliance with the Authority's rules and regulations.
- ◆ Conducted telephone central office quality of service tests in 7 telephone exchanges. These tests electronically measure the accuracy of long distance toll timing and network blockages.
- ◆ Began implementing the Tennessee "Do Not Call" Program (T.C.A. 65-4-401). Administrative rules have been promulgated and operation procedures established. The new program became effective July 1, 2000. As of November 1, 2000, over 510,000 Tennesseans have signed up for the program and approximately 375 telemarketing companies had registered with the TRA. Since the implementation of the Program through November 1, 2000, the TRA has investigated approximately 400 telemarketing complaints from consumers.
- ◆ Drafted a new telemarketing rule allowing for a reduced registration fee for independent solicitors operating under a primary solicitor.

## CONSUMER SERVICES DIVISION

- ♦ Began implementing the Tennessee Assistive Telephone Device Distribution Program. The program was authorized by T.C.A. 65-21-115. The program will provide telecommunications equipment to the state's deaf, blind and hearing-impaired population. Administrative rules have been promulgated and operational procedures established. This program was initiated on January 1, 2000, pursuant to state law. As of November 1, 2000, 506 hearing impaired or deaf-blind Tennesseans have received some type of telecommunications device that will better enable them to use the telephone network.

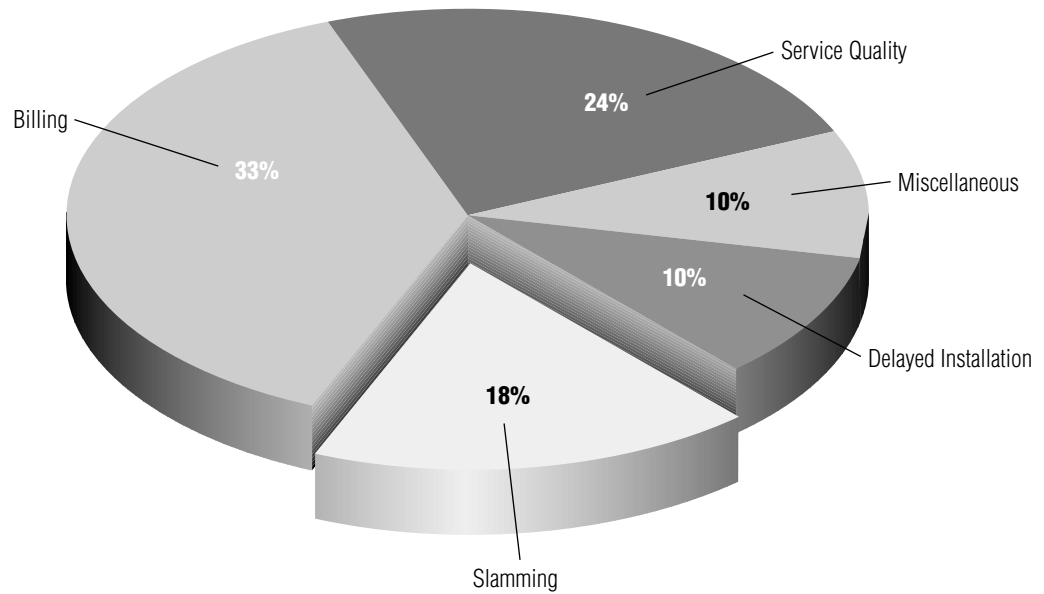
Illustrated below are several graphs depicting the trend in utility complaint statistics.

### **Categories of Complaints by Utility** **1999 Total Complaints Investigated: 2,656**

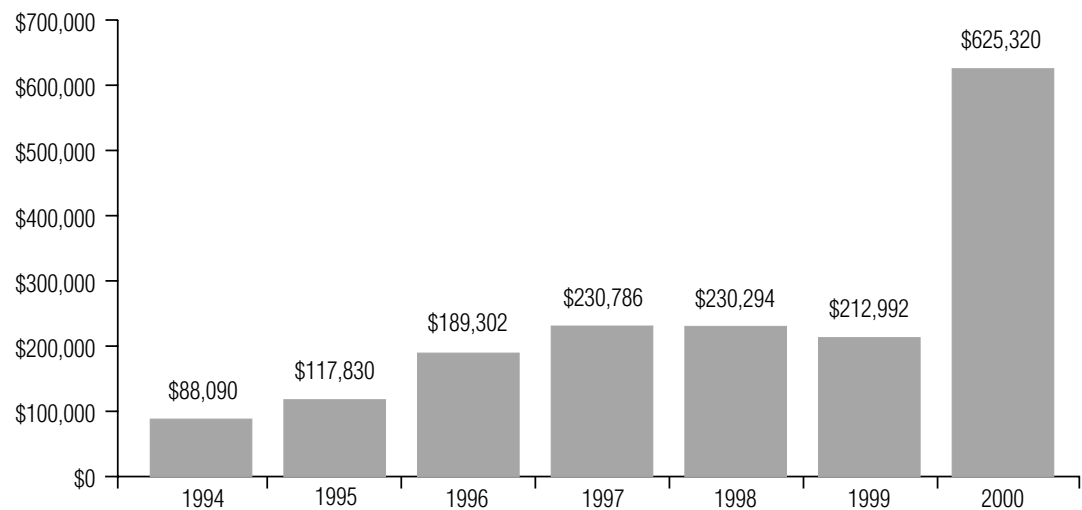


## CONSUMER SERVICES DIVISION

**Categories of Telecommunications Complaints**

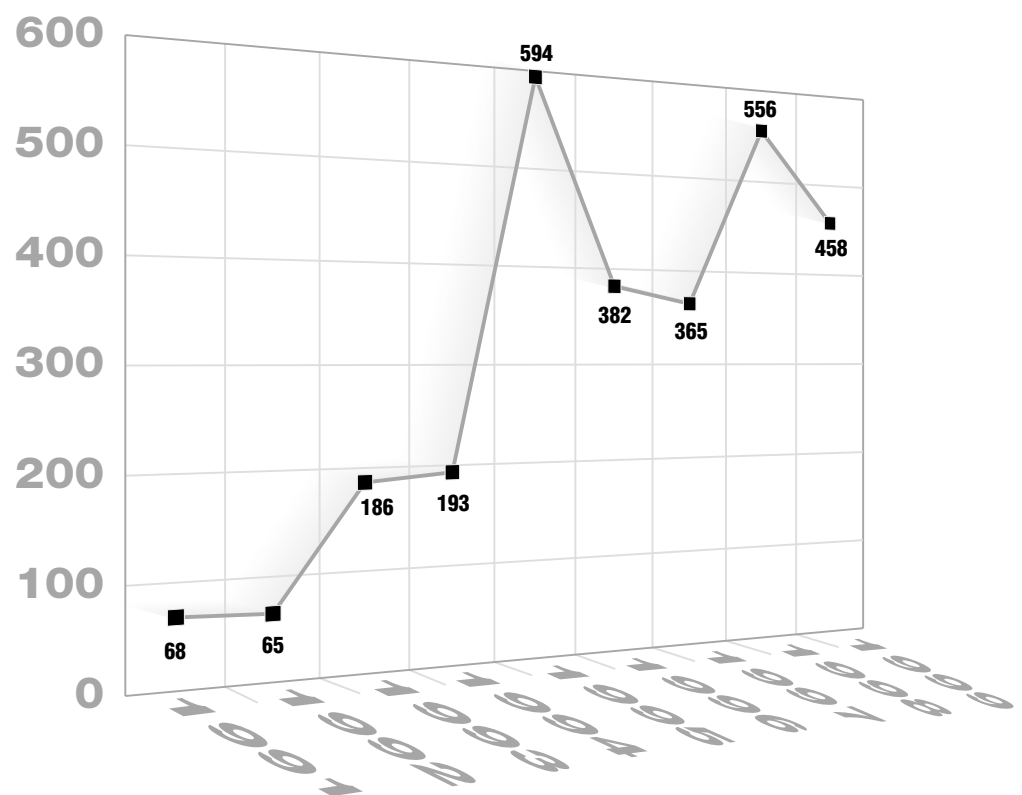


**Utility Adjustments to Consumers Resulting from Complaint Investigations**



## CONSUMER SERVICES DIVISION

**Slamming Complaint History 1991-2000**



## ECONOMIC ANALYSIS & POLICY DIVISION

*Dr. Christopher C. Klein*  
Chief

**MISSION:** *To provide economic research, analysis, and advice to the Directors and staff of the Tennessee Regulatory Authority (TRA).*

At the request of the Directors or staff, the Economic Analysis Division reviews evidence and provides advice in contested cases coming before the Directors for decision. Division staff participated in ninety-seven (113) docketed proceedings before the TRA, including: a proceeding to set wholesale prices for unbundled elements of the telephone network; rate cases for Nashville Gas Company and Lynnwood Utility Corp.; various tariff changes, special contract arrangements, and arbitrations of interconnection agreements.

The Division has primary responsibility for reviewing applications for approval of mergers, acquisitions, and the issuance of new financial instruments by public utilities. Division staff reviewed 67 of these applications between July 1, 1999 and June 30, 2000.

The Division also undertakes long term research and manages the student internship program. Each student intern is assigned a research project to complete during one semester of part-time work at the Authority. Three interns' projects were completed during the fiscal year. One examined basic telephone service penetration rates in Tennessee using 1990 census data. Another looked at the prospects for electricity pricing after the introduction of competition. The third surveyed regulatory bodies similar to the TRA in other states on their use of Performance-Based Budgeting systems. An additional project initiated prior to the end of the fiscal year continues the investigation of telephone penetration rates.

Other aspects of the research program include the participation of Division staff in professional meetings and the publication of research papers. Division staff participated in the annual meetings of the Southern Economic Association and the American Economic Association during this fiscal year. A research paper on policies toward publicly owned electric power providers was submitted to The Electricity Journal.

The Division takes the lead in strategic planning for the TRA by identifying likely future changes in the industries under TRA jurisdiction. The Division continues to examine the implications for Tennessee of restructuring of the U. S. electric power industry. The Division has similar research ongoing concerning universal telephone service and the extent of the Digital Divide in Tennessee.

## ENERGY & WATER DIVISION

Michael Horne  
Chief

**MISSION:** *The Energy and Water Division is responsible for providing the Authority with technical assistance and financial recommendations on energy and water service issues facing Tennessee. This is to ensure that all regulated services are provided in a safe, reliable and efficient manner that meets the diverse needs of our citizens, enhances economic development and strengthens Tennessee's competitive environment.*

### **DIVISION RESPONSIBILITIES:**

#### **Price and Earnings Adjustments**

Tennessee Code Annotated Sections 65-5-201 through 65-5-209 give the Authority the responsibility of setting or approving the rates and prices charged by public utilities, as defined in Section 65-4-101, operating within the State of Tennessee. The Division assists the Authority in carrying out this responsibility by evaluating periodic rate and price increase requests filed by utilities.

#### **Tariffs**

Each utility under TRA jurisdiction is required to submit a schedule of its rates, rules and regulations in the form of a tariff. These utilities may file revisions from time to time in order to adjust their tariffs. The Division reviewed 24 tariff filings and 25 Purchased Gas Adjustments (PGAs) filings.

#### **Audits**

There are four (4) basic types of audits performed by the Energy and Water Division. These audits are: Compliance audits, Actual Cost Adjustment (ACA) audits, Weather Normalization Adjustments (WNA) audits and Performance Incentive Plans (IPA) audits.

- 1) **Compliance Audits** - Compliance audits are performed to monitor the utility's compliance with applicable laws, orders, and policies of the Authority, as well as utility accounting operations to insure accordance with the Uniform System of Accounts (USOA). The Division schedules and conducts these audits as needed to fulfill its responsibilities.
- 2) **ACA Audits** - The Authority's Rule 1220-4-7-.02 permits a gas utility to recover, in a timely fashion, the total cost of gas purchased for delivery to its customers. The Purchased Gas Adjustment (PGA) Rule, which was adopted July 1, 1992, is the mechanism used to accomplish the recovery. It consists of three major components:
  - ◆ Actual Cost Adjustment (ACA)
  - ◆ Gas Charge Adjustment (GCA)
  - ◆ Refund Adjustment (RA)

## ENERGY & WATER DIVISION

The ACA is the difference between the revenue billed customers by means of the GCA and actual costs paid to suppliers as reflected in the Deferred Gas Cost account. The rule requires the utility to submit a filing each year detailing the transactions in the Deferred Gas Cost Account. The TRA Staff audits this filing to determine that the utility is following all the rules, regulations, and directives adopted by the Authority. This provides assurance to the Authority that the utility has not over-collected or under-collected gas costs from its customers.

Each year, the Staff conducts ACA audits on the six gas utilities under rate jurisdiction of the TRA: Chattanooga Gas Company, Nashville Gas Company, United Cities Gas Company, Counce Natural Gas, Gasco Distribution Systems, and Red Boiling Springs Gas Utility. During the 2000 fiscal year, the Staff reviewed gas invoices for these utilities totaling approximately \$148.1 million. The Staff also reviewed all adjustments made to the Deferred Gas Cost accounts, the underlying supporting documentation, the calculation of gas cost recoveries and compliance with PGA filings, including ongoing Refund Adjustments, and the calculation of interest on account balances. The Staff recalculated sample bills for each month of the audit period to assure that the correct tariff rates and gas cost adjustments were being passed on to the customers. Audit results and recommendation are detailed in an audit report.

- 3) **WNA Audits** - In setting rates, the Tennessee Regulatory Authority uses a normalized level of revenues and expenses for a test year to eliminate unusual fluctuations. One part of normalizing revenues in the test year is the adjustment of weather related sales volumes to reflect “normal” weather, which is calculated based on the previous thirty years weather data. Since “normal” weather rarely occurs, the customer bills can fluctuate dramatically due to weather changes from month to month, and gas companies’ revenues likewise fluctuate, causing them to earn more or less than their authorized rate of return. In recognition of this fact, the TRA has approved the Weather Normalization Adjustment (WNA) Rider, to be applied to residential and commercial customer bills during the months of November to April each year.

The TRA Staff conducts audits each year of the WNA Rider as it is applied to the three major gas companies: Chattanooga Gas Company, Nashville Gas Company, and United Cities Gas Company. In order to meet the objectives of the audit, the Staff compares the following on a daily basis:

- 1) The company’s actual heating degree days to National Oceanic and Atmospheric Administration (NOAA) actual heating degree days;
- 2) The company’s normal heating degree days to the normal heating degree days calculated in the last rate case; and
- 3) The company’s calculations of the WNA factors to the Staff’s calculations.

The Staff also audits a sample of customer bills during the WNA period to verify that the WNA factor has been correctly applied to the bills. Results of the audits and any recommendations are detailed in an audit report.

## ENERGY & WATER DIVISION

During the 2000 fiscal year, WNA related revenues for the three gas utilities amounted to \$10.9 million in surcharges. Staff audit findings showed a net over-collection of WNA revenues of \$5,744 from the ratepayers of Tennessee.

- 4) **IPA Audits** — The Performance Incentive Plan mechanism was approved by the TRA and is designed to provide incentives to the gas utility in a manner that will produce rewards for its customers and its shareholders, and improvement in the gas procurement activities.

Two of the three major gas companies now have in place Performance Incentive Plans. On August 18, 1998 for Nashville Gas Company and on February 16, 1999 for United Cities Gas Company, the TRA approved permanent performance-based ratemaking mechanisms, designed to create an incentive for the company to improve its gas purchasing activities. If the company is able to perform better than the market, as defined by pre-defined benchmarks, both the company and its ratepayers benefit by sharing equally in the savings. Likewise, if the company purchases gas above the pre-defined benchmarks, the Company absorbs half of the costs in excess of an established deadband. The Incentive Plan replaces the after-the-fact reasonableness or prudence reviews of gas purchasing activities as required by the Purchased Gas Adjustment Rule.

Nashville Gas Company and United Cities Gas Company are required to file a report of the shared savings and shared costs in the Incentive Plan Account at the end of each plan year. The Staff audits these filings similar to the audits conducted for the ACA filings.

### Miscellaneous Projects

#### Certificate of Convenience and Necessity (CCN) Applications (8)

CCNs are required by law for each public utility operating in Tennessee. During the 2000 fiscal year, eight CCN applications were reviewed by the TRA.

#### Annual Report Audits (18)

Eighteen energy & water utilities file annual reports with the TRA. The Division Staff audits these annual reports to ensure the completeness of their financial data.

#### Internal Financial Statements Data Base (300)

The Division receives monthly internal financial statements from the five largest energy & water utilities. The information contained in these financial statements is compiled in a database, which is continuously updated. The database is used to provide historical information when rate cases are filed by these utilities.

### Utility Deregulation

During the year, the Division Staff continued to participate and provide responses to the Tennessee General Assembly Study Committee on Electric Utility Deregulation. The committee was charged with the responsibility of studying the issue of electric utility deregulation and its impact on Tennessee customers. A report of findings and comments was filed with the legislature on February 28, 1999. Staff continues to work with other state commissions and the Tennessee Valley Authority to determine the best course to follow, as we consider electric restructuring in Tennessee. Additional recommendations and reports will be presented as we continue to monitor restructuring.

A new committee on Gas Utility Deregulation has formed to address gas related issues for the Assembly. The Division Staff will participate in the development of the report and make presentations to the committee.



## ENERGY & WATER DIVISION

### CUSTOMERS SERVED BY ELECTRIC, GAS, AND WATER & SEWER UTILITIES IN TENNESSEE 1999

COMPANY	Residential	Commercial	Industrial	Other	Totals	Residential	
						Annual Usage	Annual Bill
<b>GAS UTILITIES:</b>							
Chattanooga Gas Company	47,583	7,427	89	5	54,404	69.78	511.87
Counce Natural Gas	132	25	1		158	51.47	366.23
Gasco	314	67	10		391	52.90	428.63
Nashville Gas Company	118,718	15,909	157		134,784	75.01	547.48
United Cities Gas Company	94,903	13,663	363	704	109,633	64.45	500.26
RBS Gas Utility	216	15	1		232	31.82	309.12
<b>WATER/SEWER UTILITIES: Gallons</b>							
Antioch Water (water)	242	-	-	-	242	1,074	192.47
Aqua Utilities (water)	131	-	-	-	131	82,973	136.01
Aqua Utilities (sewer)	110	-	-	-	110	9,321	529.85
Cartwright Creek (sewer)	433	31	-	-	464	286,374	370.73
Condo Villas of Gatlinburg Assn dba Foothills Properties (water)	89	-	-	-	89	56,698	420.17
Hickory Start (water)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Lynnwood Utilities (sewer)	560	-	-	-	560	97,910	195.95
Newport Utilities (water)	48	-	-	-	48	49,583	283.10
On Site Systems (sewer)	34	-	-	-	34	N/A	477.47
Riveria Utilities (water)	1,050	-	-	-	1,050	15,295	53.22
Shiloh Falls Utilities (sewer)	67	-	-	-	67	N/A	658.28
TN American Water Co. (water)	55,241	7,222	149	1,534	64,146	8,551	221.10
TN Water Service (water)	480	-	-	-	480	62,509	445.43
<b>ELECTRIC UTILITIES:</b>							
Entergy Arkansas, Inc.	36	5	8	-	49	5,945	546.45
Kentucky Utilities Co.	4	-	1	-	5	24,648	429.75
Kingsport Power Co.	39,108	4,933	-	167	44,208	16,576	822.26

## GAS PIPELINE SAFETY DIVISION

Glynn Blanton  
Chief

**MISSION:** *Protect the public and environment from accidental release of natural gas or hazardous liquid products by pipeline. This protection is provided by a technologically advanced compliance program that promotes educational standards for industry and contributes to the health and security of the citizens of Tennessee.*

### A YEAR IN REVIEW

The Authority's Natural Gas Pipeline Safety certification with the United States Department of Transportation Office of Pipeline Safety (OPS) was renewed by agreeing to carry out a program to enforce those safety regulations contained in Parts 191, 192, 193 and 199 of the Code of Federal Regulations. This was the fourth year the agency has entered into this agreement. The federal government's annual review of the Authority's gas pipeline safety program to insure that federal guidelines, enforcement of safety laws, and state grant regulations are met received a perfect score of one hundred points. The number of points awarded is directly related to the federal government's grant-in-aid reimbursement amount to the state's gas pipeline safety program. The grant allocation amount was forty percent of the actual cost of the program and the remaining sixty- percent was provided through the agency's pipeline safety user fees. Gas safety engineers continued to conduct an array of safety, operation, construction, maintenance and drug and alcohol inspections on all liquefied natural gas facilities and natural gas distribution systems in Tennessee.

### Risk Management

In the interest of the public, as well as intrastate natural gas operators, the Local Distribution Company Regulatory Alternatives Feasibility Team (RAFT) was established under the guidance of the Federal Office of Pipeline Safety. This team, consisting of our division chief, Glynn Blanton, five other state pipeline safety representatives, and six natural gas distribution operators, is conducting a comprehensive feasibility study to explore alternatives to the current pipeline safety regulations that could result in improved safety. The team conducted several meetings and discussions covering risk assessment methods and alternative approaches to regulation. The team defined a process it will use in assessing the feasibility of changes and reviewed potential improvements to the waiver procedure. The team will release a draft report of its findings to the federal government in the first quarter of 2001. The final report will be a base line for all state public service commissions to use in the establishment of a risk management program for local natural gas distribution companies.

We continue to meet with the Federal Office of Pipeline Safety on the approval process for those interstate natural gas transmission companies that operate in Tennessee and have filed a risk management initiative. Several meetings with Duke Energy Corporation Project Review team and the Federal Office of Pipeline Safety have been conducted. The meetings reviewed the data with detailed summaries of information on the seven sites for which it is proposing regulatory alternatives to full compliance. All seven sites are changing from Class 1 to 2. Additional meetings are scheduled in 2001 before final approval of the risk management plan.

## **GAS PIPELINE SAFETY DIVISION**

### **Activities and Accomplishments:**

- ◆ The division chief participated in the completed Common Ground Study sponsored by the Office of Pipeline Safety (OPS) of the U.S. Department of Transportation's Research and Special Programs Administration (RSPA). The purpose of the study was to gather and assess information to determine the best one-call notification system and underground facility damage prevention practices. When Secretary of Transportation Rodney Slater released the Common Ground report in June 1999, several organizations wanted to continue the momentum of preventing damages to underground facilities through a single organization. Our division chief, representing the state regulatory agencies across the nation, has been working with other industry representatives in the formation of an organization that would carry forward the work of the "best practices" study. This new organization, now known as the Common Ground Alliance, has developed a constitution, bylaws, and organizational structure. Serving as an interim board member of the organization until the first board members are selected, he will be providing administrative and other support in promoting participation in the alliance. The alliance web site address is <http://www.commongroundalliance.com>.
- ◆ In January 2000, the Authority applied to the Federal Office of Pipeline Safety and was awarded a One-Call grant in the amount of \$46,500, the highest amount awarded to the twenty-six state agencies that applied. The grant, which began in January and ends in December 2000, will be used to give presentations to local law and code enforcement agencies about changes in the Tennessee Underground Utility Damage Prevention law and what responsible action officers need to take when a complaint has been filed. The presentation provides handout material, brochure, and a copy of Tennessee Code Annotated section 65-31-101 through 113 that will assist the police officers in the enforcement of the law. The program has received excellent comments from the Tennessee Chiefs of Police and Tennessee Sheriff's Association meetings held in April and June respectively. Other presentations have been scheduled for Clarksville, Paris, Kingsport, Waverly, Tullahoma, Fayetteville, Moscow, Jackson, Oak Ridge, Brentwood, and Memphis.
- ◆ In March 2000, the division chief introduced and supported a resolution before the National Association of Regulatory Utility Commissioners (NARUC) on the national "Dig Safely" campaign. The key messages in "Dig Safely" are: \* Call before you dig. \* Wait the required time. \* Respect the marks. \* Dig with care. The resolution passed the executive board of NARUC. NARUC and our agency are actively promoting the program and encouraging all individuals to use the one-call systems and damage prevention measures to ensure excavation is being conducted safely. The program has been successful in reducing damages to underground facilities and increasing the public's awareness of calling the one-call center before excavations begin in Tennessee.
- ◆ The Authority requested and received written interpretation from the Federal Office of Pipeline Safety (OPS) on jurisdictional authority over the pipeline operated by U.S. Gypsum located in Marion County, Tennessee. On September 24, 1999 OPS indicated that the pipeline located in Marion County, Tennessee to Jackson, Alabama is an interstate transmission facility and therefore falls under their authority. Another interpretation requested by this agency pertaining to a Tennessee Valley Authority (TVA) pipeline located in New Johnsonville, Tennessee is still under review by the legal division of OPS.

## **GAS PIPELINE SAFETY DIVISION**

- ◆ This agency continues to have a representative on the Federal Office of Pipeline Safety “Dig Safely” Team. The team has renewed its effort to promote underground facility damage prevention through the national campaign. Efforts are underway to rebuild the team member roster by seeking representatives from additional damage prevention stakeholder organizations to participate. One of the major activities the Dig Safely Team will be working on is the production of a new Dig Safely Awareness Video. Production of the new video is set to begin soon. The target date for completion and availability of the video is the last quarter of 2000.
- ◆ The GPSD, in conjunction with the Tennessee Gas Association (TGA), has been involved with seminars and roundtable discussions across TN in preparation for the Operator Qualification rule. The federal “Operator Qualification” rule gives all natural gas operators eighteen (18) months from the effective date of October 26, 1999 to develop their written qualification program and thirty-six (36) months from the effective date to qualify all employees performing a covered task.
- ◆ Approximately 370 TRA welding cards were issued during the fiscal year. Natural gas pipeline welders are tested annually or every six months, depending upon the conditions under which they are qualified. The GPSD reviews welding test results and issues welding cards to qualified welders. The GPSD is responsible for ensuring that all Tennessee natural gas operators and their contractors use welders who have been tested and qualified by an established qualified written welding procedure.
- ◆ For the fourth consecutive year, a GPSD representative continues to assist the Federal Transportation Safety Institute (TSI) as an Associate Staff member. Classes conducted at TSI facilities in Oklahoma City, Oklahoma, prepare federal and state pipeline safety personnel to evaluate pipeline safety programs for compliance with federal regulations. Our representative participates in the TSI course titled “Gas Pressure Regulations and Overpressure Protection.” Students learn the relationship of pressure, volume, and temperature based on mathematical analysis. This representative has trained over one hundred federal and state personnel.
- ◆ In May 2000, the GPSD Trainer/Engineer conducted regional seminars detailing the requirements of the Operator Qualification (OQ) rule. These seminars were provided only for operators of master meter natural gas systems. While these operators do not have extensive operation and maintenance requirements under Department of Transportation regulations, they must fully comply with requirements of the OQ rule. The Trainer/Engineer continues to work individually with both master meter and local distribution system operators in development of their OQ programs.

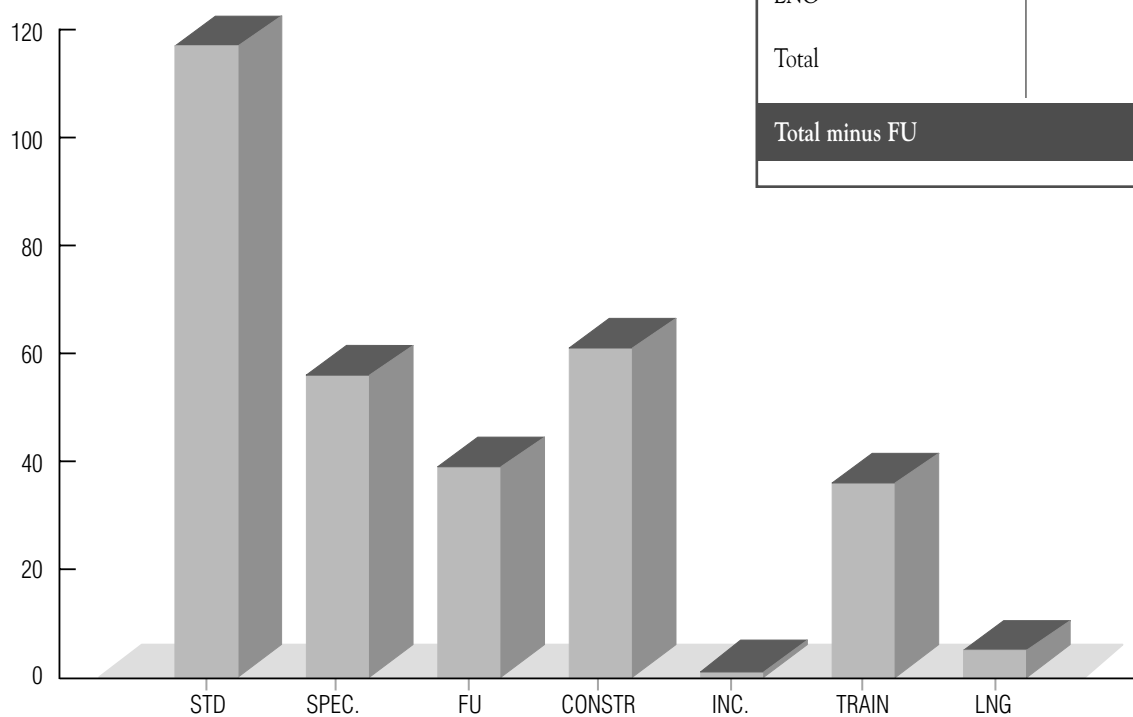
## **INSPECTIONS**

Two hundred seventy-six gas safety inspections were performed on local distribution systems in Tennessee. These inspections ensure that all operators are complying with the Minimum Federal Safety Standards (MFSS) by maintaining records, making reports, updating their operations and maintenance plans, and promptly repairing all hazardous leaks. These natural gas distribution operators consist of private companies, municipalities, utility districts, master meter, direct sales, and liquefied natural gas facilities. Staff members conduct several types of inspections to ensure compliance with all sections of the MFSS. Each operator's drug and alcohol programs are reviewed annually to ensure that testing is being conducted. The chart below shows the numbers and types of inspections conducted from July 1999 to June 2000.

## GAS PIPELINE SAFETY DIVISION

### Number of Inspections Performed July 1999 - June 2000

#### Inspections by Type



Inspections	
Standard	117
Specialized	56
Follow-Up	39
Construction	61
Incident	1
Training	36
LNG	5
Total	315
Total minus FU	276

## GAS PIPELINE SAFETY DIVISION

### Violations cited and closed

The violations cited by staff members against an operator are recorded and filed on an ongoing basis. Each operator receives verbal and written notices of the violations and is given sixty days from their receipt of the written notice to correct any deficiencies that may have warranted a citation. A follow up inspection is scheduled after the sixty day time period to ensure that action is being taken by the operator to correct all violations. Failure to take corrective action on cited violations could subject the operator to civil penalties in accordance with TCA Section 65-28-108. The steady decrease in the number of new violations cited can be attributed to the operator's ability to better comply with the MFSS and the priority given for safety of the transportation and distribution of natural gas. Listed below are the violations cited and closed.

Operator	Violations Cited	* Violations Closed
Private	5	2
Municipal	38	30
Utility District	16	10
Master Meters	18	18
Liquefied Natural Gas	0	1
Intrastate Pipeline	0	1
Totals	77	62

\*Several violations previously cited in prior year were closed during the current year.

### Civil Penalties

Tennessee Code Annotated section 65-28-108 states: "Any person who violates any provisions of the adopted Minimum Federal Safety Standards is subject to a civil penalty not to exceed ten thousand dollars (\$10,000) for each such violation for each day that such violation persists, except that the maximum civil penalty shall not exceed five hundred thousand dollars (\$500,000) for any continuing series of violations." No civil penalties were levied against natural gas operators for non-compliance action in correcting violations. The action of levying penalties is a method used by the TRA to protect the public and to ensure that operators are providing safe transportation of natural gas by pipelines.

## **GAS PIPELINE SAFETY DIVISION**

### **Natural Gas Incidents**

The Minimum Federal Safety Standards section 191.3 defines an incident as any of the following: 1. An event that involves a release of gas from a pipeline or liquefied natural gas or gas from an LNG facility and i) a death, or personal injury necessitating in-patient hospitalization; or ii) estimated property damage, including cost of gas lost, of the operator or others, or both, of \$50,000 or more, 2. An event that results in an emergency shutdown of an LNG facility, 3. An event that is significant, in the judgment of the operator, even though it did not meet the criteria of parts 1 or 2.

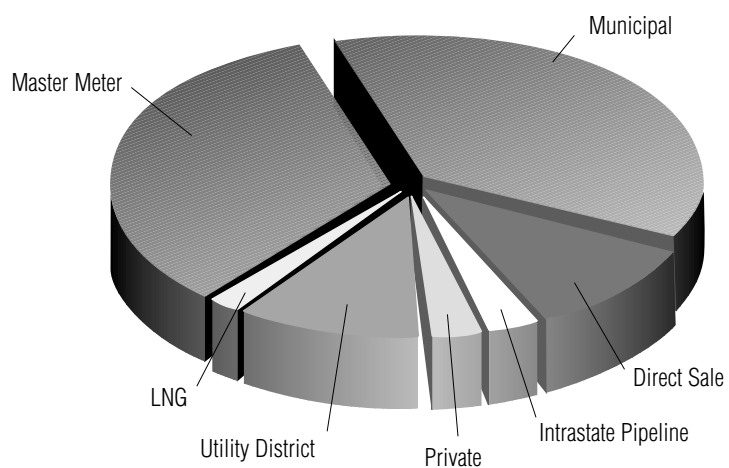
One incident was reported to the Gas Pipeline Safety Division in the past fiscal year. This incident involved property damage to a home due to the accidental ignition of natural gas. The goal of the Gas Pipeline Safety Division is to enforce the Minimum Federal Safety Regulations that all natural gas operators must follow. Strict adherence to safety regulations and procedures is crucial in helping to prevent the release and subsequent ignition of natural gas.

## GAS PIPELINE SAFETY DIVISION

### Types of Operators

Operator Type	Number of each
LNG	3
Master Meter *	59
Municipal	74
Direct Sale	23
Intrastate Pipeline	7
Private	6
Utility District	22
<b>Total</b>	<b>194</b>

\* Master Meter systems = Mobile Home Parks, Apartments, and Housing Authorities





## INFORMATION SYSTEMS DIVISION

Tracy Stinson  
Chief of Information Systems

**MISSION:** *To provide effective and continually improving information management resources and services to the Authority.*

The Information Systems Division's (ISD) goal is to develop and implement systems that will support the Agency's objectives and to effectively and efficiently manage the agency-wide automated information resources. The Information Systems Division's staff consists of an Office Automation Specialist and an Information Systems Analyst III.

### **Duties of the Information Systems Section:**

- ◆ Plan and coordinate information system resources for the Authority.
- ◆ Develop the three year Information Systems Plan.
- ◆ Oversee the administration of the LAN for 60 plus workstations.
- ◆ Maintain and modify PC systems as needed.
- ◆ Develop new systems as required.
- ◆ Coordinate information resource training.
- ◆ Maintain databases/data entry.
- ◆ Maintain mainframe and LAN system security.
- ◆ Oversee hardware management.
- ◆ Provide service Agency computer hardware



## LEGAL DIVISION

Richard Collier  
General Counsel

**MISSION:** *To assist the Directors and staff by providing sound and timely advice during the deliberative process and at Conferences and hearings and to effectively represent the Authority before reviewing courts, the General Assembly and state and federal agencies.*

It is the responsibility of the Legal Division to provide in-house counsel to the Directors of the Authority. Attorneys from the Division also represent the Directors, in their official capacities, in the Court of Appeals, the Tennessee Supreme Court, Chancery Courts, and Federal Courts. The Legal Division may represent the Authority before the Federal Communications Commission and the Federal Energy Regulatory Commission. The General Counsel or his designee is frequently appointed to sit as a Hearing Officer or Administrative Law Judge. A lawyer from the Division sits on the legislative team and is responsible for bill analysis as requested by the Legislative Fiscal Review Committee. The Legal Division assists in the drafting of rules promulgated by the Authority and prepares orders reflecting the action of Directors in specific cases.

### **Accomplishments**

During the past year the Legal Division assisted the Authority in issuing decisions in the universal service and unbundled network element pricing dockets. The Legal Division successfully defended the Authority in an appeal from the Authority's order regarding BellSouth Telecommunications, Inc.'s application for a price regulation plan. The Authority conducted hearings and issued decisions on United Telephone-Southeast's 1999 price regulation case and issued decisions on reciprocal compensation for local traffic to internet service providers. The Authority also acted on numerous interconnection and resale agreements between telecommunications carriers and on applications for certificates of public convenience and necessity requested by competing local exchange telephone companies and gas companies. The Authority conducted hearings in dockets examining the use of contract service arrangements by telecommunications service providers with a focus on termination provisions in those contracts.

The Authority also conducted hearings and rendered decisions setting rates for several water and waste water treatment utilities. The Legal division drafted extensive rules of practice and procedure governing the conduct of contested case and arbitration proceedings before the Authority, which have subsequently been approved and recently became effective.

In accordance with the passage of new legislation, the Authority promulgated rules implementing a Do Not Call registry for citizens desiring not to be contacted by telephone solicitors and establishing a program for complaints and enforcement actions against violators of the Do Not Call statutes and rules. The Authority amended rules to strengthen the enforcement of laws prohibiting slamming and cramming by long distance telephone companies. With the assistance of the Consumer Service Division, the Legal Division commenced show cause proceedings against telecommunications service providers for failure to comply with their tariffs and for violations of Authority rules and Tennessee statutes. Settlement payments (in lieu of judgments) in slamming/cramming cases exceeded \$250,000. The Authority acted on numerous requests by Competing Local Exchange Carriers (CLECs) and BellSouth for arbitration of interconnection agreements and issued orders setting forth performance standards and enforcement mechanisms to be included in such agreements.

## LEGAL DIVISION

To reduce the depletion of area codes in Tennessee, the Authority issued orders calling for voluntary surrender of unused prefix codes and petitioned the Federal Communications Commission for additional delegated authority to invoke mandatory number pooling and other number conservation measures. The Legal Division has participated with the Division of Gas Pipeline Safety in its statewide “Dig Safely” program.

During the past fiscal year over 1058 dockets were opened requiring action by the Authority. Members of the Legal Division provided continuing research, document preparation, and counsel to the Directors and staff in most of these dockets. The Legal Division also prepared 336 orders in tariff matters and contested cases for issuance by the Authority.

### **Significant cases for the 1999-2000 fiscal year included:**

- ◆ Universal Service Generic Contested Case
- ◆ BellSouth Petition to Convene a Contested Case Proceeding to Establish “Permanent Prices” for Interconnection and Unbundled Network Elements, Phase II
- ◆ Nashville Gas Company Rate Case
- ◆ Brooks Fiber’s Claim for Reciprocal Compensation for ISP traffic (currently before the U.S. District Court, Middle District for Tennessee)
- ◆ Appeal from TRA Decision in the case of BellSouth Telecommunications Directory Assistance Tariff
- ◆ Appeal from TRA Decision in the case of UTSE 1998 Price Regulation Case
- ◆ Appeal from TRA Decision in the case of BellSouth, BSE application for Certificate of Public Convenience and Necessity
- ◆ Decision on remand and subsequent appeal in BellSouth Price Regulation case
- ◆ Area Code Conservation — Number Pooling
- ◆ Application of Memphis Networkx for Certificate of Public Convenience and Necessity and Joint Petition of Memphis Light Gas and Water and A&L Networks-Tennessee, Inc. for Approval of Operating Agreement (first filing for approval of joint venture under recently enacted Tenn. Code Ann. § 7-52-103(d))
- ◆ AVR of Tennessee d/b/a Hyperion of Tennessee v. BellSouth Telecommunications, Inc. (complaint to recover reciprocal compensation for ISP traffic)

## TELECOMMUNICATIONS DIVISION

Joseph T. Werner  
Chief

**Mission:** *To provide the directors of the TRA with the detailed analysis needed to make informed decisions on issues related to the development of competitive markets and the preservation of affordable prices for telecommunications services in Tennessee.*

In 1995, the Tennessee General Assembly revised the laws for regulating telecommunications in Tennessee. A year later Congress re-wrote the Federal telecommunications laws in the first major rewrite of Federal telecommunications laws since 1934. Both the State and Federal acts introduced competition in local telephone markets, called for reduced regulation, and directed the preservation of universal telephone service. While the new laws establish the basic framework for achieving these goals, state and federal regulators, like the TRA, are responsible for adopting the rules, regulations, policies and enforcement mechanisms to implement the legislative framework.

With the passage of State and Federal legislation introducing local telephone competition, the role of regulators in this area has changed dramatically. The primary focus of regulators now is on developing a competitive marketplace while maintaining affordable prices. A large part of the work done by the Telecommunications Division is dictated by the statutory requirements of the Telecommunications Act of 1996 and mandates by the Federal Communications Commission. Regulators now serve as referees, arbitrators and mediators to resolve disputes between competitive carriers. The Telecommunications Division is now addressing such unprecedented issues as breaking down the telephone network into its individual components and pricing each component, certifying new entrants into the local telephone market, establishing a universal service fund to maintain affordable telephone rates and resolving disputes between providers.

Implementing the requirements of the new laws is proving to be a challenging responsibility. To prepare the detailed analysis needed for the Directors to make informed decisions not only requires a strong financial background but also knowledge of the telephone network. The Telecommunications Division now consists of seventeen employees including two telecommunications engineers, three CPAs, and a three economists. The Telecommunications Division works in concert with the Economic Analysis, Consumer Services and Legal Divisions in formulating recommendations on telecommunications issues before the TRA.

Tennesseans are seeing significant competitive activity in the business segments of the local telecommunications markets. As of June 30, 2000, sixty (60) facilities-based competitors were certificated to provide local telephone service in the state, with twenty-nine (29) of these providers offering services in Tennessee. These twenty-nine (29) facilities-based competitors are serving 217,000 lines in Tennessee, primarily business customers in the State's four (4) largest metropolitan areas. This represents 7% of the Tennessee's total lines open to competition and 27% of the business lines subject to competition. In comparison, at June 30, 1999, only 116,000 lines in the State were served by competitive carriers. In addition, these new market entrants have invested \$450 million in equipment and facilities in Tennessee since 1995. Like the TRA's three previous years, the 2000 fiscal year was an eventful year for the Telecommunications Division. The following is a list of the major activities addressed by the Telecommunications Division during the fiscal year.

## TELECOMMUNICATIONS DIVISION

Like the TRA's two previous years, the 1999 fiscal year was an eventful year for the Telecommunications Division. Below is a list of the major activities of the Telecommunications Division during the fiscal year.

◆ **Agreements to Interconnect the Networks of New Entrants with the Networks of Existing Telephone Companies.**

- For multiple providers of telephone services to exist, there must be compatibility between providers so that customers of the different providers may call each other. Both the State and Federal telecommunications acts require all providers of telecommunications to interconnect their facilities with the facilities of other carriers. It is the responsibility of the TRA to approve such interconnection agreements, arbitrate interconnection issues and ensure carrier's compliance with approved agreements. During the fiscal year, the Telecommunications Division reviewed thirty-seven (37) interconnection agreements between facilities based providers and twenty-eight (28) agreements with resellers of telecommunications services. This is the most interconnection agreements ever reviewed by the Authority. The Authority also arbitrated 19 interconnection issues during the fiscal year for three providers and heard and resolved formal interconnection complaints by two providers arguing that BellSouth was not complying with the terms of the approved interconnection agreements.

◆ **Tennessee's Digital Divide**

- In May, the Authority issued a white paper on Tennessee's Digital Divide. The report found that only 37.5% of Tennesseans owned a computer and even fewer had access to the Internet. Among numerous other findings, the report shows that the rate of computer ownership among Tennesseans with a household income of less than \$35,000 annually is significantly lower than the national average.

◆ **Establishment of a Universal Service Fund**

- Universal service is the provision of "residential basic local exchange telephone service at affordable rates" (T.C.A. § 65-5-207(a)). Encouraging competitors to serve residential customers throughout the state without raising monthly telephone rates may require a special fund to subsidize residential telephone service in high cost areas. Tennessee's Telecommunications Act gives the TRA the ability to consider such a fund, while the federal act establishes a national mechanism under the FCC, but allows states to establish their own system as well. Moving in parallel with national proceedings before the FCC, the TRA has an open docket to consider universal service funding for non-rural carriers. During the fiscal year, the TRA made numerous decisions in this proceeding including the adoption of a cost model for identifying high cost areas of the State. Additional decisions on universal service including rate re-balancing and access charge reform are forthcoming.

◆ **Unbundled Network Element Pricing**

- The Federal Telecom Act requires the Bell Operating Companies to "unbundle" their networks so that new providers can purchase network elements from the incumbent providers in order to provide competing services. During the fiscal year, the Authority addressed numerous issues related to the cost methodology to be used in the pricing of unbundled network elements.

## TELECOMMUNICATIONS DIVISION

### ◆ Certification of Competitive Carriers

- The Authority analyzed and approved the applications of twenty-one (21) companies requesting authority to offer facility-based local exchange telecommunications services. The TRA also reviewed and approved the applications of 105 resellers of local and long distance telephone services during the fiscal year.

### ◆ Review of Contract Service Arrangements

- Incumbent local exchange carriers have responded to the impending local telephone competition by offering special pricing arrangements to selected customers. These arrangements, offered to large and medium-sized business customers, provide discounted prices to customers who commit to continue using the incumbent's service for a specified period of time, typically two to three years. During the fiscal year, a docket was opened by the TRA to study the potential impact of these contracts on the development of a competitive marketplace.

### ◆ Small and Minority Owned Business Plans

- Enforced T.C.A. § 65-5-212 by collecting 399 Small and Minority Owned Business Plans from certificated providers of telecommunications services and collecting required contributions to the fund.

### ◆ Petition by a Competitive Local Exchange Company to Enter the Market of a Small Incumbent Local Telephone Company

- The Tennessee Act protects incumbent telephone companies with less than 100,000 lines from local telephone competition unless the incumbent elects to compete outside of its service area. In February 1998, Hyperion of Tennessee, a competing provider, challenged that exemption by requesting permission from the Authority to compete for customers in the area served by Tennessee Telephone Company. Hyperion argued that the small company exemption constitutes a "barrier to entry" in violation of the federal act. Hyperion relied upon the Federal Communications Commission's (FCC) recent preemption of similar laws in Texas and Wyoming. The TRA found, however, that the small company exemption was essential to preserve universal service and is consistent with the federal act. On May 27, 1999, the FCC preempted the Authority's decision finding that the state statute was not "competitively neutral" and thus violates the Federal Telecommunications Act. During the 2000 fiscal year, the TRA petitioned the FCC to reconsider its preemption where a decision is pending.

### ◆ Tariff Review

- Reviewed 588 tariff filings by telecommunications companies to introduce new services or to revise the rates, terms and conditions of existing services. This is a 57% in tariffs analyzed than in 1999 and the most tariffs ever examined by the Authority or its predecessor, the Public Service Commission.

### ◆ Pay Telephone Certification

- Registered 1,236 payphones and 41 payphone providers during the fiscal year.

## TELECOMMUNICATIONS DIVISION

### Competitive Local Exchange Companies Certified by the TRA (As of October 31, 1999) Pertinent Data As of 6/30/99

#### Telecommunication Services Providers

- Incumbent Local Exchange Carriers .....	18
- Competitive Local Exchange Carriers (Facilities Based) .....	60
- Telephone Cooperatives (Not regulated by the TRA) .....	9
- Local Service Resellers .....	97
- Long Distance Resellers .....	334
- Approved Interconnection Agreements Between Competitive Local Exchange and Incumbent Carriers .....	96
- Approved Agreements between Local Resellers and Incumbent Providers .....	105

◆ ACI Corporation	◆ Interpath Communications, Inc.
◆ Aeneas Communications	◆ KMC Telecom III, Inc.
◆ ALEC, Inc.	◆ LCI International Telecom Corp.
◆ Alltel Communications, Inc.	◆ Level 3 Communications
◆ AT&T Communications	◆ LoadPoint Telecommunications
◆ BellSouth BSE, Inc.	◆ Logix Communications Corp.
◆ Ben Lomand Communications, Inc.	◆ MFS Intelenet of Tennessee, Inc.
◆ BlueStar Networks, Inc.	◆ MCIMetro Access Transmission Services
◆ Brooks Fiber Communications of TN	◆ Metropolitan Fiber Systems of Tennessee
◆ BTI Communications, Inc.	◆ NA Communications, Inc.
◆ Citizens Communications Company	◆ Network Plus, Inc.
◆ Comm. Depot, Inc.	◆ New South Communications
◆ Computer Business Sciences, Inc.	◆ NEXTLINK Tennessee, Inc.
◆ DeltaCom, Inc.	◆ PV Tel of Tennessee
◆ Digital Teleport, Inc.	◆ SouthEast Telephone
◆ DSL Net Communications	◆ Sprint Communications Company
◆ Electric Power Board of Chattanooga	◆ TCG MidSouth
◆ e.spire Communications, Inc.	◆ Teligent, Inc.
◆ Frontier Local Services, Inc.	◆ Time Warner Communications
◆ Global NAPS Gulf, Inc.	◆ US LEC of Tennessee, Inc.
◆ GTE Communications Corp.	◆ US West Interprise America, Inc.
◆ Hyperion Communications of Tennessee	◆ Williams Communications, Inc.
◆ Hyperion of Tennessee (AVR)	◆ WinStar Communications of TN, Inc.
◆ ICG Telecom Group, Inc.	◆ Worldcom Technologies, Inc.
◆ Intermedia Communications	